



# COMMISSION NEWS

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## Arizona Corporation Commission Releases New List of "Top 10 Scams"

### *--'Day-trading' seminars, promissory notes, viatical investments make ranking--*

PHOENIX (May 24, 1999) – The Arizona Corporation Commission, the State's securities regulator, released today a list of the Top 10 Scams regulators are combating. Added to the list in the second-annual ranking are pricey day-trading seminars, supposedly high-yielding promissory notes and investments in viatical settlements (interests in the life insurance policies of supposedly terminally ill people).

"Today we have an ideal climate for fraud," warns Mark Sendrow, Arizona's Securities Director. "Millions of new investors, many of whom expect unrealistically high returns, are looking for places to put their money. At the same time we're living through an Internet-driven technology revolution that is a boon to investors and con artists alike." Securities fraud costs Americans billions of dollars each year, state securities regulators estimate.

The list of scams also includes Internet fraud, affinity group fraud, investment seminars, Ponzi and pyramid schemes, illegal franchise offerings and entertainment scams.

"State and national securities cops are doing their best to protect investors, but given their limited resources, investors must do their share to prevent fraud" Chairman Carl Kunasek said. "By the time the regulators are notified, the investor's money is usually gone and is rarely recovered" said Commissioner Tony West. "As always, investors are the first line of defense against fraud. The best weapons investors have to protect themselves and their money are skepticism and common sense" said Commissioner Jim Irvin.

Here is a list of the Top Ten Scams, ranked roughly in order of seriousness or prevalence:

1. **Internet fraud.** Con artists use the Internet to "pump and dump" small stocks, peddle bogus offshore "prime bank" notes and perpetrate fraudulent pyramid schemes. The Internet is like a big city, with good neighborhoods and bad neighborhoods and investors need to be careful about taking advice from strangers. Never invest based on a "tip" on the Internet without doing independent research. You never know who's offering you the "help."

2. **Investment seminars.** Investors should be very wary about expensive seminars where self-anointed gurus imply you can get rich quick. Some people do get rich but usually they're the ones running the seminar, making money from admission fees, and selling their books and audiotapes. Seminars are marketed through newspaper, radio and TV ads and "infomercials" on cable television. Recently promoters have begun offering seminars and courses promising to turn investors into successful stock "day traders." Day trading, more akin to gambling than investing, is inappropriate for the vast majority of investors.
3. **Affinity group fraud.** Con artists of the same religion, ethnicity or political orientation target members of closely-knit religious, political or ethnic groups. The crooks seek to take advantage of our natural trust of people who are like us. Targeted media advertising is used to identify potential victims, often with offers of employment or financial advice. Typically promoters steal the money and no investments are made.
4. **Abusive sales practices.** State and other securities regulators report progress in the fight against "microcap" stock fraud by suspending, barring and criminally prosecuting brokers who specialize in the manipulation of low-priced securities. Nevertheless investors need to be on guard and should hang up on aggressive cold callers.
5. **Telemarketing fraud.** New "boiler rooms" (high-pressure telephone sales operations), open all the time, selling illegal or fraudulent investments. Promoters try to capitalize on the headlines—from fears over the Year 2000 problem to the Asian currency crisis or breakthroughs in computers or biotechnology. One way vulnerable investors can protect themselves is to use their telephone answering machine to screen their calls and not even answer solicitations by cold-calling salespeople.
6. **Promissory notes.** A growing area of fraud, these notes are supposedly "insured" and backed by real assets. In fact, they are backed only by an often-worthless promise to repay. They offer high interest rates to investors who may be struggling to get by on income from money market funds or certificates of deposits. These "investments" are often sold by life insurance agents, lured by high commissions, who may know nothing about the promoters of the investments beyond what they're told. The agents also may not realize they have to be licensed as securities brokers with state securities regulators to sell these notes. In most cases, the notes also must be registered with regulators. Multi-state investigations have revealed that a number of the promoters of these notes have had problems with regulators in the past. Some notes are issued on behalf of companies that don't even exist. Even if the companies are legitimate, investors should realize that the reason these notes are being offered directly to small investors is because banks and venture capitalists have declined to invest in the companies.
7. **Viatical investment scams.** One of the hottest new investment products and one of the riskiest, viatical contracts are interests in the death benefits of terminally ill patients such as AIDS and cancer victims. The insured gets a percentage of the death benefit in cash, supposedly to improve the quality of their lives in the last days. Investors get a share of the death benefit when the insured later dies, after a fee is paid to the viatical investment broker. Because of uncertainties in predicting when even a terminally ill person is going to die, these investments must be considered

extremely speculative.

- 8. Entertainment fraud.** Con artists zero in on investors hoping to hit it big by buying a piece of the next "Titanic." Besides movies, investment vehicles include cable television shows, video games and other entertainment products.
- 9. Ponzi/pyramid schemes.** Always in style, these swindles promise high rates of return to investors, but the only people who really make a killing are the promoters who set them in motion, at the expense and out of funds from later investors, who end up losing their money when the house of cards inevitably collapses.
- 10. Illegal franchise offerings.** States have taken actions relating to inadequate disclosure and fraud involving franchise investments, often marketed at business opportunity and franchise trade shows where promoters target people attracted by the prospect of owning their own business.

Before making an investment or doing business with a stock broker or investment or franchise promoter, call the Securities Division of the Arizona Corporation Commission to find out if they are properly registered or have a disciplinary history. When checking out a stockbroker, ask for their CRD record, which gives their employment and disciplinary history. To contact the Arizona Securities Division, visit its website, [www.ccsd.cc.state.az.us](http://www.ccsd.cc.state.az.us) or call 602-542-4242.

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